

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: IOWA ALLIANCE FOR FAIR COMPETITION	DOCKET NO. C-03-243
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ORDER REGARDING COMPLAINT

(Issued January 16, 2004)

On October 21, 2003, the Iowa Alliance for Fair Competition (Iowa Alliance) filed with the Utilities Board (Board) a written complaint relating to services performed by an affiliate of MidAmerican Energy Company (MidAmerican), MidAmerican Services. The complaint suggests that MidAmerican may not be complying with applicable law regarding cross-subsidization of affiliates by rate-regulated gas and electric utilities. MidAmerican Services, a MidAmerican affiliate, offers an extended service protection plan (ESP) for major appliances.

The Iowa Alliance is a group of heating and air conditioning contractors and associates. The Iowa Alliance states that its members regularly provide the same type of service, such as inspection, repair, and maintenance of heating and cooling equipment, as provided by MidAmerican Services. The Iowa Alliance questions whether MidAmerican Services can perform the advertised services at the listed price unless it is using funds from sources other than revenue generated by the extended service protection plan. The Iowa Alliance asks that the Board order an audit of the transactions between MidAmerican and its affiliates related to nonutility

services. Iowa Code § 476.75 grants the Board the authority to periodically audit affiliate transactions.

On November 17, 2003, the Board issued an order requiring MidAmerican to submit additional information regarding any MidAmerican resources used by its affiliate in offering the ESP. MidAmerican filed responses on December 2, 2003.

The following is a brief summary of the responses:

1. The ESP is a non-utility service offered by MidAmerican Services. The costs are recorded below the line to non-utility accounts in accordance with MidAmerican's cost allocation manual. MidAmerican does not provide vehicles, service tools, or instruments to the ESP program. However, MidAmerican does provide two employees whose responsibilities directly support the ESP program. The costs of these two employees are charged to the unregulated business, MidAmerican Services. In addition, any costs relating to customer support are charged to MidAmerican Services and not MidAmerican.
2. No costs of providing the services of the ESP program are recovered through MidAmerican's gas and electric rates.
3. All costs relating to billing, computer software, customer information, call center, information technology, credit, etc., are charged to below-the-line accounts through a monthly rate per customer charge. This rate for 2003 was \$1.69 per month per ESP customer. The total charges were \$237,003. These costs are included in a line item on the customer's MidAmerican bill. Part of the charge is to cover the additional cost of including the line item.

4. The ESP program included one bill insert into the MidAmerican bill. The costs of this insert, including postage and associated costs relating to delivering the insert, were calculated based on a fixed and a variable component. The fixed component included customer service, programming, information technology, and legal costs, while the variable component included the additional cost for postage. These costs were all charged below the line and are not part of the charges for regulated gas and electric service.

5. MidAmerican received one request from a third party to include a bill insert in MidAmerican's bill. A Des Moines area HVAC dealer alliance requested this information. Since no bill insert information was provided, no further action has been taken.

Iowa Code § 476.71 provides, in part:

[T]hat a public utility should not directly or indirectly include in regulated rates or charges any costs or expenses of an affiliate engaged in any business other than that of utility business unless the affiliate provides goods or services to the public utility.

The responses filed by MidAmerican indicate that MidAmerican is properly following the procedures outlined in its cost allocation manual. While the Iowa Alliance questions how MidAmerican Services can offer the ESP program at the rate charged, no evidence of cross-subsidization has been presented.

MidAmerican emphasizes in its response that it goes to great lengths and expense to insure that the costs relating to the ESP program are assigned to the customers receiving the benefits of the program and that no ESP costs flow through to the regulated utility business. That being said, absent an audit of MidAmerican's affiliate transactions, it is difficult, if not

impossible, for the Board or anyone else to determine if any costs relating to the ESP program have been included on the regulated utility side of the business.

The Board believes that it is appropriate at this time to perform an audit to ensure that MidAmerican is not cross-subsidizing the ESP program. The Board has the authority to order an audit by a national or regional accounting firm of the transactions between a public utility and its affiliates. Iowa Code § 476.75. The cost of the audit is paid by the utility and may be included in its regulated rates, unless otherwise ordered by the Board for good cause. The Board will order an audit pursuant to this authority.

However, the Board notes that MidAmerican has a broad range of affiliate transactions unrelated to the ESP program. Prior to ordering an audit, the Board's staff will investigate and make recommendations to the Board on the scope of the audit that should be performed. For example, one question is whether it is better to perform a general audit of all affiliate transactions or focus more closely on one or two affiliates, such as MidAmerican Services and the ESP program. Because the Board can generally order such an audit only once every three years, the scope of the audit should be very well-defined. The Board welcomes comments from the parties to the complaint, the Consumer Advocate Division of the Department of Justice, and any other interested persons regarding the appropriate audit scope and the description of the audit that would be contained in any request for proposals.

The Board requests that any comments be filed within 120 days. At the present time, the Board intends to proceed on a timeline that would result in completion of an audit within the next 12 to 18 months.

The Board notes that in its complaint, the Iowa Alliance refers several times to “nonutility” services. Iowa Code §§ 476.78 through 476.83, the nonutility statutes, only apply if the nonutility services are offered by the regulated utility. In this case, because the services are offered through an affiliate, those sections do not apply. Rather, § 476.75, related to affiliate transactions, is applicable.

IT IS THEREFORE ORDERED:

Parties to this proceeding, the Consumer Advocate Division of the Department of Justice, and any interested person may file comments within 120 days of the date of this order regarding the scope of any affiliate audit of MidAmerican Energy Company that may be ordered by the Board.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 16th day of January, 2004.